

THANEAKEA PHUM (CAMBODIA), LTD.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

THANEAKEA PHUM (CAMBODIA), LTD.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

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STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors (“BOD”) submits its report and the audited financial statements of Thaneakea Phum (Cambodia), Ltd. (“TPC”) for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of TPC is to provide micro-finance services to the rural population of Cambodia, through its head office in Phnom Penh and its various provincial offices. Its corporate objective is to provide needed financial services to low-income households, particularly women in the rural areas, in a manner that is viable and sustainable for the economic development of Cambodia.

RESULTS

The results of operations for the year ended 31 December 2004 are set out in the income statement on page 8.

BAD AND DOUBTFUL LOANS

Before the financial statements of TPC were drawn up, the BOD took reasonable steps to ascertain that appropriate actions had been taken, in relation to the writing off of bad loans and the provision for bad and doubtful loans. They satisfied themselves that all known bad loans had been written off and that adequate provisions had been made for bad and doubtful loans.

At the date of this report, the BOD is not aware of any circumstances which would render the amount of the provision for bad and doubtful loans in the financial statements of TPC inadequate to any material extent.

VALUATION OF ASSETS

Before the financial statements of TPC were drawn up, the BOD took reasonable steps to ensure that its assets, other than loans which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of TPC, had been written down to an amount which they might be expected to realise.

At the date of this report, the BOD is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of TPC misleading in any material respect.

VALUATION METHODS

At the date of this report, the BOD is not aware of any circumstances that have arisen which would render adherence to the existing historical method of valuation of assets and liabilities in the financial statements of TPC misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- i) any charge on the assets of TPC which has arisen since the end of the year which secures the liabilities of any other person;
- ii) any contingent liability in respect of TPC that has arisen since the end of the year other than in the ordinary course of its business operations.

No contingent or other liability of TPC has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the BOD, will or may have a material effect on the ability of TPC to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the BOD is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of TPC, which would render any amount stated in the financial statements misleading in any material respect.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of TPC for the year ended 31 December 2004 were not, in the opinion of the BOD, materially affected by any items, transactions or events of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the BOD, to substantially affect the results of the operations of TPC for the current year in which this report is made.

EVENTS SINCE THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

THE BOARD OF DIRECTORS

The members of the BOD during the period and at the date of this report are:

- Mark Taylor Pierce, CRS/SEAPRO Regional Director Chairman
- Richard Balmadier, CRS/KH representative Vice Chairman
- Mark David Palmer, CRS/HQ representative Member
- Say Bory, lawyer Member (Appointed on 30 September 2004)

No members held any interest in the equity of TPC except for Richard Balmadier holding 400 shares of TPC (at par value of Riel 100,000 each). No arrangements existed to which TPC is a party, with the object of enabling the members to obtain an interest in TPC or in any corporate body. No member has a benefit, other than remuneration, by reason of a contract made by TPC or related party.

AUDITORS

The financial statements were audited by PricewaterhouseCoopers (Cambodia) Limited who have expressed their willingness to accept re-appointment.

RESPONSIBILITIES OF THE BOD IN RESPECT OF THE FINANCIAL STATEMENTS

The BOD is responsible to ensure that the financial statements are properly drawn up, so as to give a true and fair view of the financial position of TPC as at 31 December 2004, and of the results of its operations for the period then ended. In preparing these financial statements, the BOD is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of guidelines issued by the National Bank of Cambodia (“the Central Bank”) or, if there has been any departures in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that TPC will continue operations in the foreseeable future;
- v) set overall policies for TPC, ratify all decisions and actions by the management that have a material effect on the operations and performance of TPC, and ensure they have been properly reflected in the financial statements.

The BOD confirms that TPC has complied with these requirements in preparing the financial statements.

On behalf of the Board of Directors,

Richard Balmadier
Vice Chairman
Date: 30 March 2005

**REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF
THANEAKEA PHUM (CAMBODIA) LTD.**

We have audited the financial statements of Thaneakea Phum (Cambodia) Ltd. (“TPC”) as at 31 December 2004 and for the year then ended as set out on pages 6 to 23. These financial statements have been prepared in accordance with the accounting policies set out in note 2 to the financial statements and the Central Bank’s guidelines.

Respective responsibilities of the BOD and the auditors

The Board of Directors of TPC is responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit of those financial statements, and to report our opinion to you.

This report, including the opinion, has been prepared for and only for TPC’s Board of Directors, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the financial statements, whether the accounting policies are appropriate to TPC’s circumstances, and whether they are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free of material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements are not intended to present the financial position and results of operations of TPC in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdictions other than Cambodia.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of TPC as at 31 December 2004, and of the results of its operations and its cash flows for the period then ended, in accordance with the accounting policies set out in note 2 to the financial statements and the Central Bank guidelines.

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED
Phnom Penh, Kingdom of Cambodia
Date: 30 March 2005

THANEAKEA PHUM (CAMBODIA), LTD.**BALANCE SHEET
AS AT 31 DECEMBER 2004**

	Note	2004 Riel '000	2003 Riel '000
ASSETS			
Cash on hand		75,674	212,267
Deposits with the Central Bank	3	200,500	200,500
Balances with banks	4	1,407,285	1,348,306
Loans to customers	5	14,191,051	8,698,487
Property and equipment	6	336,114	475,126
Other assets	7	<u>275,772</u>	<u>181,782</u>
TOTAL ASSETS		<u>16,486,396</u>	<u>11,116,468</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customer deposits	8	1,627,655	1,157,887
Accruals and other liabilities	9	738,950	360,233
Deferred grant income	10	91,575	122,100
Borrowings	11	<u>3,043,131</u>	<u>-</u>
Total Liabilities		<u>5,501,311</u>	<u>1,640,220</u>
SHAREHOLDERS' EQUITY			
Share capital	12	4,000,000	4,000,000
Reserves		788,740	788,740
Hybrid capital investment	13	3,966,092	3,950,666
Retained earnings		<u>2,230,253</u>	<u>736,842</u>
Total Shareholders' Equity		<u>10,985,085</u>	<u>9,476,248</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>16,486,396</u>	<u>11,116,468</u>

Ms. Elizabeth O. Abrera
Chief Executive Officer
Date: 30 March 2005

Mr. Oum Sophan
Chief Financial Officer
Date: 30 March 2005

The accompanying notes on pages 10 to 23 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
AS AT 31 DECEMBER 2004**

	Note	Share capital Riel'000	Donated capital Riel'000	Reserves Riel'000	Hybrid capital investment Riel'000	Retained earnings Riel'000	Total Riel'000
2003							
As at 1 January 2003		3,243,285	880,924	747,188	427,362	8,058	5,306,817
Profit for the year		-	-	-	-	728,784	728,784
Increase in par value of shares	12(a)	679,215	-	-	(679,215)	-	-
Issue of shares for cash	12(b)	77,500	-	-	-	-	77,500
Transfer from donated capital		-	(880,924)	-	880,924	-	-
Cash received from non- merging partners	13	-	-	-	470,021	-	470,021
Loan fund from CRS		-	-	-	2,851,574	-	2,851,574
Write off of savings accounts from the Program		-	-	41,552	-	-	41,552
As at 31 December 2003		<u>4,000,000</u>	<u>-</u>	<u>788,740</u>	<u>3,950,666</u>	<u>736,842</u>	<u>9,476,248</u>
2004							
As at 1 January 2004		4,000,000	-	788,740	3,950,666	736,842	9,476,248
Profit for the year		-	-	-	-	1,493,411	1,493,411
Cash received from non- merging partners		-	-	-	15,426	-	15,426
As at 31 December 2004		<u>4,000,000</u>	<u>-</u>	<u>788,740</u>	<u>3,966,092</u>	<u>2,230,253</u>	<u>10,985,085</u>

The accompanying notes on pages 10 to 23 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 Riel '000	2003 Riel '000
Interest income		4,886,703	3,324,092
Interest expense		<u>(240,080)</u>	<u>(114,224)</u>
Net interest income		4,646,623	3,209,868
Grant income		112,676	157,450
Other operating income	14	189,966	102,830
Foreign exchange gain-net		<u>67,247</u>	<u>53,439</u>
Net operating income		5,016,512	3,523,587
Operating expenses			
Personnel costs	15	(1,714,720)	(1,435,533)
General and administration expenses	16	(1,138,434)	(872,781)
Depreciation		<u>(161,589)</u>	<u>(167,369)</u>
		<u>(3,014,743)</u>	<u>(2,475,683)</u>
Provision for doubtful loans		(135,005)	(136,925)
Profit before tax		1,866,764	910,979
Taxation	17	<u>(373,353)</u>	<u>(182,195)</u>
Profit for the year		<u>1,493,411</u>	<u>728,784</u>

Ms. Elizabeth O. Abrera
Chief Executive Officer
Date: 30 March 2005

Mr. Oum Sophan
Chief Financial Officer
Date: 30 March 2005

The accompanying notes on pages 10 to 23 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 Riel '000	2003 Riel '000
Cash flows from operating activities			
Profit for the year		1,493,411	728,784
Adjustments for:			
Depreciation		161,589	167,369
Amortisation of grant income		(30,525)	(107,441)
Provision for doubtful loans		135,005	136,925
Reserves		-	41,552
Operating income before changes in operating assets and liabilities		<u>1,759,480</u>	<u>967,189</u>
Changes in operating assets and liabilities:			
Statutory deposit with the Central Bank		-	(200,000)
Loans to customers		(5,627,923)	(4,715,658)
Other assets		(93,990)	(132,204)
Customer deposits		469,767	532,437
Accruals and other liabilities		378,717	275,273
Net cash outflow from operating activities		<u>(3,113,949)</u>	<u>(3,272,963)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		<u>(22,222)</u>	<u>(126,567)</u>
Cash flows from financing activities			
Loan funds granted during the year		-	2,851,574
Cash from non merging partners		15,426	470,021
Increase in paid up capital		-	77,500
Proceeds from borrowings		3,043,131	-
Net cash inflow from financing activities		<u>3,058,557</u>	<u>3,399,095</u>
Net (decrease) / increase in cash and cash equivalent		(77,614)	(435)
Cash and cash equivalent at the beginning of the year		<u>1,561,073</u>	<u>1,561,508</u>
Cash and cash equivalent at end of the year	18	<u><u>1,483,459</u></u>	<u><u>1,561,073</u></u>

The accompanying notes on pages 10 to 23 form an integral part of these financial statements.

THANEAKEA PHUM (CAMBODIA), LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. BACKGROUND INFORMATION

The Thaneakea Phum (Cambodia) Company, Ltd. (“TPC”), is a registered limited liability company incorporated under the Cambodian laws. Its activities are an offshoot of the Thaneakea Phum Program (“the Program”) which the Catholic Relief Services (CRS) launched in December 1994 as part of CRS Cambodia’s strategy for rural reconstruction and poverty alleviation. TPC is the result of the operational merger and transformation of CRS branches and two of its non-government organizations (NGO) partners who spun off their micro-finance operations to become a branch of a licensed micro-finance institution. The transferred assets and liabilities of TPC were established based on the asset transfer document dated 19 September 2002.

TPC as a micro-finance institution will continue to be primarily, a rural-based credit and savings institution with ten branches and a head office in Phnom Penh. TPC’s corporate focus is to provide reliable and affordable access to financial services to poor women micro-entrepreneurs in rural areas and in the vicinity of Phnom Penh. Out of a total 21 provinces in Cambodia, TPC is already operating in eight provinces, namely Takeo, Kampot, Battambang, Svay Rieng, Banteay Meanchey, Siem Reap, Kampong Cham and Kandal. The Kandal and Phnom Penh operations are already fully functioning towards the end of 2002. Financial services are provided either through village banks made up of solidarity groups of five members each, or to solidarity groups themselves.

TPC was registered as a limited liability company (“LLC”) on 27 June 2002. The Central Bank granted TPC a license to conduct business as a micro-finance institution for a three-year period commencing from 12 February 2003 to 12 February 2006.

As at 31 December 2004, TPC had 171 employees (2003: 162 employees) of whom 25 are situated at the Head Office in Phnom Penh and 146 in the branches.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The financial statements are prepared under the historical cost convention.

The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdiction other than Cambodia.

Currency of presentation

The financial statements are prepared in the national currency of the Kingdom of Cambodia, the Khmer Riel (“Riel”).

Basis of aggregation

The financial statements include the financial statements of the head office, and TPC’s ten branches. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and provision for bad and doubtful loans.

The amount of provision established by TPC as at the balance sheet date is in full compliance with the requirement of the Central Bank's Prakas No B-7-02-186 on classification and provisioning for bad and doubtful loans, including interest in suspense. This is determined by applying defined percentages to the outstanding balances in various aging categories (other than those classified as *current* or *standard* where no provision is required), as follows:

Loan status/classification	Percentage applied (%)
Standard	0
Sub standard loans (where repayments are overdue by 30 days or more)	10
Doubtful loans (where repayments are overdue 60 days or more)	30
Loss (where repayments are overdue 90 days or more)	100

The adequacy of the provision for bad and doubtful loans established as at balance sheet date following the Central Bank's Prakas was evaluated by management up to the date of the auditors' report. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms. Based on management's judgment, no additional amount is necessary to maintain the provision balance at an adequate level to absorb losses.

Property, plant and equipment

Property, plant and equipment are stated at their transferred values represented by the respective net book values (cost less accumulated depreciation) recorded in the Program's accounts as at the date of transfer to TPC (see note 19). All acquisitions subsequently are recorded at cost.

Depreciation is computed based on the straight-line method other than for vehicles, which is computed based on the declining balance method. The expense will be charged at rates calculated to write down the recorded cost of the property, plant and equipment over their estimated useful lives. The useful lives of these assets are as follows:

	<i>Useful lives (Years)</i>
Office equipment	3 to 5
Motor vehicles	5 to 8

Expenditure for maintenance and repairs that do not extend the useful lives of assets will be expensed in the year in which they are incurred.

Gains or losses on the sale of property and equipment will be recognised upon the disposal of such assets.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Income and expense recognition

Interest earned on loans is recognised on an accrual basis.

Interest expense on deposits is recognized on an accrual basis.

Fee income is recognised in the income statement when the transaction occurs.

Grants

Revenue grants received to subsidize TPC's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

Grants received for the purchase of property, plant and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the asset. The unamortised grants are shown as *Deferred grant income*.

Funds received to be used exclusively for funding its loan disbursement are recognized as *Hybrid capital* and treated as part of shareholder's equity in the balance sheet.

Foreign currency translation

Foreign currency transactions are translated into Khmer Riel using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. The exchange rates used for the translations of monetary assets and liabilities denominated in foreign currencies are as follows:

	2004	2003
Khmer Riel / US\$	4,027	3,976
Khmer Riel / Thai Baht	103.28	100.25

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions entered into by TPC with related parties consisted mainly of fixed asset and loan fund grants received from CRS, as disclosed in notes 10 and 13.

Reserves

This account represents profits from the previous Program under CRS. Loans and deposits that accrue from the Program are charged to this account.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

3. DEPOSITS WITH THE CENTRAL BANK

	Note	31 December 2004 Riel '000	31 December 2003 Riel '000
Statutory deposits	(i)	200,000	200,000
Current account		<u>500</u>	<u>500</u>
		<u>200,500</u>	<u>200,500</u>

- (i) Following the Central Bank's Prakas No. 8700-006 on the "Licensing of Micro-finance Institution", each licensed MFI shall maintain an amount equal to 5% of its registered capital in a non-interest earning permanent account with the Central Bank.

4. BALANCES WITH BANKS

	31 December 2004 Riel '000	31 December 2003 Riel '000
<i>Current accounts</i>		
ACLEDA Bank (without interest)	595,738	555,017
<i>Saving deposits</i>		
Rural Development Bank (RDB)	543,754	688,628
Canadia Bank	<u>267,793</u>	<u>104,661</u>
	<u>1,407,285</u>	<u>1,348,306</u>

Saving deposits earn annual interest from 0.75% to 2% in 2004 (2003: 1.5% to 2%) whereas current account do not earn interest.

5. LOANS TO CUSTOMERS

	31 December 2004 Riel '000	31 December 2003 Riel '000
Loans and advances to customers	14,228,574	8,739,970
Provision for bad and doubtful loans	<u>(37,523)</u>	<u>(41,483)</u>
Net	<u>14,191,051</u>	<u>8,698,487</u>

All loans and advances were made to Cambodian nationals.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****5. LOANS TO CUSTOMERS (continued)**

The details of gross loans and advances by currency are as follows:

	31 December 2004 Riel '000	31 December 2003 Riel '000
In Riel	11,414,533	7,094,697
In Thai Baht	<u>2,814,041</u>	<u>1,645,273</u>
	<u>14,228,574</u>	<u>8,739,970</u>
Provision for bad and doubtful loans	<u>(37,523)</u>	<u>(41,483)</u>
	<u><u>14,191,051</u></u>	<u><u>8,698,487</u></u>
Effective interest rates	2004	2003
Thaneakea Phum or Group loans	3% - 3.5% per month	3% - 4% per month
Special loans	3.5% per month	4% per month

Movements in provision for doubtful loans are as follow:

	31 December 2004 Riel'000	31 December 2003 Riel'000
Balance as at beginning of the year	41,483	65,307
Provision for the year	135,005	136,925
Bad debts written off	(138,627)	(122,175)
Interest written off	-	(35,127)
Bad debts recovered	<u>(338)</u>	<u>(3,447)</u>
	<u><u>37,523</u></u>	<u><u>41,483</u></u>

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****5. LOANS TO CUSTOMERS (continued)**

The details of gross loans to customers, by branches, are as follows:

	31 December 2004	31 December 2003
	Riel '000	Riel '000
Samroung Bati	1,588,089	1,168,724
Banteay Meanchey	2,814,041	1,645,273
Tramkok	1,153,369	808,298
Chhuk	1,805,635	969,850
Battambang	1,485,552	721,490
Svay Rieng	903,327	408,540
Siem Reap	1,414,449	920,480
Kompong Cham	700,022	453,893
Kandal	693,083	468,490
Phnom Penh	1,671,007	1,174,932
	<hr/>	<hr/>
	14,228,574	8,739,970
	<hr/>	<hr/>
Provision for bad and doubtful loans	(37,523)	(41,483)
	<hr/>	<hr/>
	14,191,051	8,698,487
	<hr/>	<hr/>

Total non-performing loans on which recognition of interest is suspended amounted to Riel 100,332 thousand (Riel 61,221 thousand in 2003). Loans are considered as non-performing when they become overdue by 30 days or more.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****6. PROPERTY, PLANT AND EQUIPMENT**

CRS transferred all the property, plant and equipment owned by the Program as at 30 June 2002 to TPC. These assets were transferred at their respective net book values which were recorded in the Program accounts.

As at 31 December 2004, the details of these assets are as follows:

	<i>Office equipment</i> <i>Riel '000</i>	<i>Motor vehicle</i> <i>Riel '000</i>	<i>Total</i> <i>Riel '000</i>
<i>Cost</i>			
At 1 January 2004	444,114	950,885	1,394,999
Additions during the year	<u>22,222</u>	<u>-</u>	<u>22,222</u>
	<u>466,336</u>	<u>950,885</u>	<u>1,417,221</u>
<i>Accumulated depreciation</i>			
At 1 January 2004	273,240	646,633	919,873
Depreciation charge for the year	<u>79,290</u>	<u>81,944</u>	<u>161,234</u>
	<u>352,530</u>	<u>728,577</u>	<u>1,081,107</u>
<i>Net book value at</i>			
As at 31 December 2004	<u>113,806</u>	<u>222,308</u>	<u>336,114</u>
As at 31 December 2003	<u>170,874</u>	<u>304,252</u>	<u>475,126</u>

7. OTHER ASSETS

	31 December 2004 Riel '000	31 December 2003 Riel '000
Interest receivable	191,468	133,449
Prepaid rental	22,822	34,262
Others	<u>61,483</u>	<u>14,071</u>
	<u>275,773</u>	<u>181,782</u>

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****8. CUSTOMER DEPOSITS**

This account represents the compulsory deposits from customers representing 5% to 10% of their principal loan amounts. Customers receive interest of 1% per month on their savings deposits that will be paid at the maturity of their loans.

The details of customer deposits, by location, are as follows:

	31 December 2004	31 December 2003
	Riel '000	Riel '000
Banteay Meanchey	366,868	213,846
Samrourng Bati	161,162	123,314
Battambang	184,059	120,352
Tramkok	118,041	93,263
Svay Rieng	134,338	75,572
Chhuk	176,423	108,468
Siem Reap	146,583	117,918
Kompong Cham	95,947	70,157
Kandal	62,418	42,286
Phnom Penh	181,816	192,711
	<u>1,627,655</u>	<u>1,157,887</u>

9. ACCRUALS AND OTHER LIABILITIES

	31 December 2004	31 December 2003
	Riel '000	Riel '000
Accrued expenses		
Salaries	234,593	127,099
Withholding tax	7,989	5,962
Income tax	373,353	152,868
Others	123,015	74,304
	<u>738,950</u>	<u>360,233</u>

10. DEFERRED GRANT INCOME

This account is originally represented by grant received from CRS for three motor vehicles amounting to Riel 231,958 thousand.

	31 December 2004	31 December 2003
	Riel '000	Riel '000
Balance as at beginning of the year	122,100	279,550
Amortisation of grant income for the year	<u>(30,525)</u>	<u>(157,450)</u>
	<u>91,575</u>	<u>122,100</u>

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

11. BORROWINGS

	Note	31 December 2004 Riel '000	31 December 2003 Riel '000
Rural Development Bank (“RDB”)	(i)	2,000,000	-
Micro-finance Alliance Fund	(ii)	1,005,000	-
Other		38,131	-
		<u>3,043,131</u>	<u>-</u>

i) Rural Development Bank (“RDB”)

Credit limit in original currency	Effective interest rate		Repayment terms
	2004	2003	
KHR 2,000,000,000	6%+6 months LIBOR (8.64%)	-	The principal is to be repaid annually with monthly interest repayments.

This loan is unsecured as under the Rural Credit and Savings Project financed by the Asian Development Bank (“ADB”).

The proceeds of the loan shall be used exclusively to finance sub-loans to rural micro-enterprises.

(ii) Micro-finance Alliance Fund

Credit limit in original currency	Effective interest rate		Repayment terms
	2004	2003	
KHR 1,005,000,000	11.63% per annum	-	The principal is to be repaid within three years from November 2004 with quarterly interest re-payment.

12. SHARE CAPITAL

	31 December 2004			31 December 2003		
	Number of shares	%	Paid up capital Riel'000	Number of shares	%	Paid up capital Riel'000
CRS	39,200	98	3,920,000	39,200	98	3,920,000
Elizabeth Obed Abrera	400	1	40,000	400	1	40,000
Richard Balmadier	400	1	40,000	400	1	40,000
	<u>40,000</u>	<u>100</u>	<u>4,000,000</u>	<u>40,000</u>	<u>100</u>	<u>4,000,000</u>

Based on the articles of incorporation (AoI), TPC’s registered, issued and fully paid capital amounted to Riel 4,000,000,000 represented by 40,000 ordinary shares, each having an issue price of Riel 100,000. Each share will have one vote and will participate equally in all dividends and other distributions of the TPC.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

13. HYBRID CAPITAL INVESTMENT

Included in the asset transfer document (see note 19) is a provision for TPC to collect CRS “loan capital” from the Program’s local NGO partners who did not join the merger (non merging partners). As stated in this document, the “loan capital” collected from the partners will be the subject of a separate agreement at a later date when a decision is made as to when these funds are to be constituted as subordinated debts. Until such time that a decision is made and a separate agreement drawn up, TPC will record these third party collections on behalf of its majority shareholder as *Hybrid capital investment*.

	31 December 2004 Riel '000	31 December 2003 Riel '000
Total amount outstanding from non-merging partners	-	33,700

14. OTHER OPERATING INCOME

	Note	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Loan processing fee		127,766	-
Recovery from loans written off		15,469	-
Interest income from banks		6,315	10,315
Penalty income		4,276	1,728
CRS’s loan collection fee	(i)	673	32,331
Training income		-	10,559
Other income		35,467	47,897
		<u>189,966</u>	<u>102,830</u>

(i) Based on the terms of the asset transfer document as discussed in note 19, a monthly interest of 1% is collected by TPC from the local NGO partners for managing the local NGO partners collections and for reporting the status of the loans.

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

15. PERSONNEL COSTS

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Staff salaries	1,638,634	1,386,609
Health benefits	51,128	37,133
Employee activities	14,323	7,580
Other related costs	10,635	4,211
	<u>1,714,720</u>	<u>1,435,533</u>

16. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2004 Riel '000	For the year ended 31 December 2003 Riel '000
Office expenses	330,758	277,898
Traveling expenses	242,802	113,321
Commission	219,431	160,418
Occupancy expenses	205,715	200,065
Technical fee	82,151	81,110
Bank charge	30,448	23,760
Other tax expense	26,715	13,815
Others	414	2,394
	<u>1,138,434</u>	<u>872,781</u>

17. TAXATION

	For the year ended 31 December 2004 Riel'000	For the year ended 31 December 2003 Riel'000
Taxation	<u>373,353</u>	<u>182,195</u>

Under the Law on Taxation, the Company has obligation to pay Tax on Profit at 20% of taxable profit or Minimum Tax at 1% of total revenue, whichever is higher.

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****17. TAXATION (continued)**

The reconciliation of effective tax rate, subject to agreement with the Cambodian Tax Department, is as follows:

	For the year ended 31 December 2004 Riel'000	For the year ended 31 December 2003 Riel'000
Profit before income tax	<u>1,866,764</u>	<u>910,979</u>
Income tax using Tax on Profit at 20% minimum tax at 1% of turnover	373,353	182,195
Expenses not deductible for tax purposes	-	-
Income not subject to tax	<u>-</u>	<u>-</u>
Current tax on profit expense	<u>373,353</u>	<u>182,195</u>

Tax on profit expense is calculated on the basis of the current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of the income tax expense will be made following inspection by the tax authorities.

18. CASH AND CASH EQUIVALENT

	2004 Riel'000	2003 Riel'000
Balances with banks	1,407,285	1,348,306
Cash on hand	75,674	212,267
Current account with the Central Bank	<u>500</u>	<u>500</u>
	<u>1,483,459</u>	<u>1,561,073</u>

THANEAKEA PHUM (CAMBODIA), LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

19. TRANSFER OF ASSETS AND LIABILITIES

Based on the asset transfer document dated 19 September 2002, the Program's assets and liabilities as at 30 June 2002 (transfer date) were transferred to TPC at their recorded net book values, with details as follows:

	2002
	Riel '000
ASSETS	
Cash and balances with the Central Bank and other banks	2,026,264
Loans and advances to customers	2,667,273
Prepayments and short-term receivables	55,855
Property and equipment	162,565
Total assets	<u>4,911,957</u>
LIABILITIES	
Customer deposits	467,959
Accounts payable	29,448
Accruals and provisions	194,342
Other liabilities	139,204
Total liabilities	<u>830,953</u>
Net	<u>4,081,004</u>

The net difference between the transferred assets and liabilities were treated as follows:

Paid-up capital (see note 12) *	3,240,785
Donated capital (see statement of changes in shareholders' equity) **	140,870
Reserve and appropriation	699,349
Total	<u>4,081,004</u>

*The amount of paid up capital was determined based on the sum of the following:

- Outstanding balance of the loans and advances to customers of Riel 2,667,273 thousand as at transfer date, less the amount of Riel 402,737 thousand representing the portion of the outstanding loan portfolio financed from the Program's internally generated earnings prior to the transfer and incorporation as LLC;
- The amount of US\$ 250,000 (Riel 976,250 thousand) in cash that constitutes the paid in capital.

**The amount of donated capital was established based on the net book value of assets transferred, reduced by the net book value of the assets amounting to Riel 21,695 thousand which were not funded by CRS.

As at the transfer date, the provision for bad and doubtful loans known to exist as at the date of transfer was not considered in establishing the loan portfolio included in the transferred assets and therefore affected the amount of *Reserve and appropriation* which was a balancing figure after the amounts to constitute as paid in capital and donated capital were established. Had the provision amount of Riel 69,227 thousand been established as at the transfer date, the transferred balance of loans and advances to customers would have been established at the net outstanding amount of

THANEAKEA PHUM (CAMBODIA), LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****19. TRANSFER OF ASSETS AND LIABILITIES (Continued)**

Riel 2,598,046 thousand and the *Reserve and appropriation* would have been Riel 630,122 thousand. As a result, TPC charged the required provision for bad and doubtful loans as at balance sheet date, in order to comply with the Central Bank's mandatory specific provisioning requirement, to the beginning balance of the *Reserve and appropriation* account.

20. CURRENCY ANALYSIS

An analysis of TPC's assets and liabilities by currency (in Riel '000) as at 31 December 2004 follows:

	US\$	Thai Baht	Riel	Total
ASSETS				
Cash in hand	-	10,811	64,863	75,674
Balance with National Bank of Cambodia	-	-	200,500	200,500
Balances with banks	508,178	214,145	684,962	1,407,285
Loans to customers	-	2,805,995	11,385,055	14,191,050
Property and equipment	-	-	336,114	336,114
Other assets	30,345	44,532	200,896	275,773
Total Assets	<u>538,523</u>	<u>3,075,483</u>	<u>12,872,390</u>	<u>16,486,396</u>
LIABILITIES				
Customer deposits	-	366,868	1,260,787	1,627,655
Accounts payable and other liabilities	100,118	156,496	482,336	738,950
Deferred grant income	-	-	91,575	91,575
Borrowing	38,131	-	3,005,000	3,043,131
Total Liabilities	<u>138,249</u>	<u>523,364</u>	<u>4,839,698</u>	<u>5,501,311</u>
<i>Net asset position</i>	<u>400,274</u>	<u>2,552,119</u>	<u>8,032,692</u>	<u>10,985,085</u>
As at 31 December 2003				
Total assets in foreign currency	702,468	1,912,497	8,501,503	11,116,468
Total liabilities in foreign currency	<u>108,845</u>	<u>315,171</u>	<u>1,216,204</u>	<u>1,640,220</u>
Net on (off) balance sheet position	<u>593,623</u>	<u>1,597,326</u>	<u>7,285,299</u>	<u>9,476,248</u>

APPENDICES I: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS

THANEAKEA PHUM (CAMBODIA), LTD.

**APPENDICES 1: NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

1. CAPITAL ADEQUACY RATIO, Prakas No. B7-00-46

Licensed Micro-finance Institution shall at all times, maintain capital adequacy ratio of more than 20%. As at 31 December 2004, Capital Adequacy Ratio of the Company is 69.64%.

The Capital Adequacy Ratio calculation is detailed in Schedule 1.

2. LIQUIDITY RATIO, Prakas No. B7-02-48

Licensed Micro-finance Institution shall at all times, maintain a liquidity ratio of more than 100%. As at 31 December 2004, the Company does not obtain any voluntary saving deposit from their customers.

The liquidity ratio calculation is detailed in Schedule 2.

3. CALCULATION OF FOREIGN CURRENCY EXPOSURE, Prakas No B 795-001

Foreign currency exposure ratio should not exceed 5% of net worth for each currency and 15% of net worth aggregate. As at 31 December 2004, the foreign currency exposure ratio is 26.88% as aggregate.

Foreign currency exposure ratio calculation is detailed in Schedule 3.

4. RESERVE REQUIREMENT, Prakas No. B7-02-45

Licensed Micro-finance Institution shall deposit 5% of their deposits into an account maintained with the Central Bank. As at 31 December 2004, the Company does not obtain any voluntary saving deposit from their customers.

**5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO, Prakas
No. B702-186**

Licensed microfinance institutions shall classify their loan portfolio into the following four classes, depending on the financial situation of the borrower and the timeliness of principal and interest payments.

Loan term of one year or less than one year

- **Standard:** good financial condition and punctual payment of principal and interest.
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more.
- **Doubtful:** some payments of principal and/or interest are overdue 60 days or more.
- **Loss:** some payments of principal and/or interest are overdue 90 days or more.

Loan term more than one year

- **Standard:** good financial condition and punctual payment of principal and interest.
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more.
- **Doubtful:** some payments of principal and/or interest are overdue 180 days or more.
- **Loss:** some payments of principal and/or interest are overdue 360 days or more.

THANEAKEA PHUM (CAMBODIA), LTD.

**APPENDICES 1: NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

**5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO, Prakas
No. B702-186 (Continued)**

Specific provisions on the loans classified as follow:

- ***Sub-standard*** : 10% regardless of the collateral value except cash.
- ***Doubtful*** : 30% regardless of the collateral value except cash.
- ***Loss*** : 100%.

As at 31 December 2004, the specific provision provided by the Company is Riel 37,523 thousand which was in compliance with the Central Bank's Prakas.

Loan classification, provision and delinquency ratio calculation is detailed in Schedule 4.

THANEAKEA PHUM (CAMBODIA), LTD.

**SCHEDULE 1
CAPITAL ADEQUACY RATIO CALCULATION AS AT 31 DECEMBER 2004**

		Riel'000		
1-NUMERATOR : ELIGIBLE CAPITAL				
1.1. CORE CAPITAL				
- Paid in capital		4,000,000		
- Reserves		788,740		
- Retained earnings		736,842		
- Net profit for the year		<u>1,493,411</u>		
Sub total A		<u>7,018,993</u>		
<i>Less :</i>				
- Unpaid capital		-		
- Loan to related parties		-		
- Intangible asset		<u>-</u>		
Sub-total B		-		
Core capital (A-B)		7,018,993		
1.2.HYBRID CAPITAL				
- Nun-refundable grants		-		
- Public guarantee funds		-		
- Perpetual subordinated debt		3,966,092		
Hybrid capital		3,966,092		
1.3 ELIGIBLE CAPITAL (Core capital + Hybrid capital) (E)		<u>10,985,085</u>		
2-DENOMINATOR:RISK-WEIGHTED ASSET (R)				
	Asset	Amount Riel'000	Weighting	
-Cash		75,674	0%	-
- Gold		-	0%	-
- Deposits with the Central Bank		200,500	0%	-
- Deposits with bank rated AAA to AA-		543,755	20%	108,751
- Deposits with bank rated A+ to A-		-	50%	-
- Loans		14,191,051	100%	14,191,051
- Others asset		1,475,416	100%	1,475,416
Total		<u>16,486,396</u>		<u>15,775,218</u>
CAPITAL ADEQUACY RATIO (C=E/R)				<u>69.64%</u>

THANEAKEA PHUM (CAMBODIA), LTD.

SCHEDULE 2

LIQUIDITY RATIO AT 31 DECEMBER 2004

		Riel'000
1- Numerator : liquid asset		
- Cash on hand		75,674
- Balance with the Central Bank		200,500
- Balances with banks		<u>1,407,285</u>
Sub- Total (A)		1,683,459
<i>Less:</i>		
- Amount owed to the Central Bank		-
- Amount owed to banks		<u>-</u>
Sub-total (B)		-
Net liquidity (A – B)		<u>1,683,459</u>
<i>Plus:</i>		
Portion of loans maturing in less than one month		<u>2,042,504</u>
Liquid assets (L)		<u>3,725,963</u>
2. Denominator : Adjusted amount of deposits (A)		
Category of deposits	Amount	%
Voluntary savings	-	25%
Total	-	-
LIQUIDITY RATIO (L/A)		-

THANEAKEA PHUM (CAMBODIA), LTD.

SCHEDULE 3

CALCULATION OF FOREIGN CURRENCY EXPOSURE AS AT 31 DECEMBER 2004

	THB Riel'000	US\$ Riel'000	Total Riel'000
1- Asset in foreign currency (Riel)	3,075,483	538,523	3,614,006
2- Minus: Liabilities in that currency (Riel)	(523,364)	(138,249)	(661,613)
3- Net Position (Long or Short)	2,552,119	400,274	2,952,393
4- Minus: Provision for FX losses	-	-	-
5- Adjusted Net Position (Long or Short)	2,552,119	400,274	2,952,393
6- Net worth	<u>10,985,085</u>	<u>10,985,085</u>	<u>10,985,085</u>
7- Foreign currency exposure ratio: 5/6	<u>23.23%</u>	<u>3.64%</u>	<u>26.88%</u>

THANEAKEA PHUM (CAMBODIA), LTD.**SCHEDULE 4****LOAN CLASSIFICATION, PROVISIONING AND DELINGUENCY RATIO
AS AT 31 DECEMBER 2004**

Loan classification	Amount Riel'000	Rate %	Specific Provision Riel'000
1-Loans of one year or less			
1-1 Standard	76,485	0%	-
1-2 Substandard Past Due \geq 30 days	55,680	10%	5,568
1-3 Doubtful Past Due \geq 60 days	18,139	30%	5,442
1-4 Loss Past Due \geq 90 days	26,513	100%	26,513
Sub-Total 1	176,817		37,523
2-Loans of more than one year			
2-1 Standard	-	0%	-
2-2 Substandard Past Due \geq 30 days	-	10%	-
2-3 Doubtful Past Due \geq 180 days	-	30%	-
2-4 Loss Past Due \geq 360 days	-	100%	-
Sub-Total 2	-		-
Grand total 1+2	176,817		37,523
All loan past due > 30 days (A)			100,332
Loan outstanding (B)			14,228,574
Delinquency Ratio (A/B)			<u>0.71%</u>